

United Nations Global Compact

Esquel Group's Communication on Progress – February 2009

Esquel Group has been a member of the United Nations Global Compact since its founding. The Group is a staunch supporter of the Compact's ten principles in the areas of human rights, labor, the environment and anti-corruption.

Protecting the environment is one of Esquel's leading principles for how we should operate. It is one of our e-cultures.

Esquel's vertical integration means we see opportunities as well as challenges along the entire value chain. And our commitment is backed by action: Since 2000, some US\$50 million has been invested in green-related technologies. The investment brought about improvements in production facilities, energy and water conservation, wastewater treatment and emission control. The aim is to reduce Esquel's footprint to the environment where production is carried out.

The achievements have been encouraging. So far we have seen a 26% reduction in energy consumption from the 2005 baseline. As for water, the Group has already achieved 39% in reduction.

Effect environmental management relies on our dedicated team of environmental management professionals who spearhead Esquel's sustainable initiatives.

Esquel's environmental initiatives make a strong business case. Aside from cost savings, it drives our continuous improvement in our operational efficiencies. It is a win-win situation for driving a greener environment, as well as a leaner Esquel.

Green Investments:

Energy – In 2004, we began operating our own low emission 30-megawatt clean coal thermal power plant. The steam generated from the boilers is 100% reused for textiles production. Our plant has a high efficiency of 55%, compared with 40% in conventional power plants. In other words, we now produce and consume cleaner energy that is also cheaper than from the grid.

In 2000, we expanded our wastewater treatment plant (in Guangdong) that handled our needs up until 2006. In 2006, we further expanded the treatment plant to accommodate the needs of our new weaving mill. We handle 100% of our discharged water from manufacturing.

We invented pulse dyeing technology which saves water, electricity and chemical dyestuff.

We use natural lighting at our new weaving plant and improve our lighting system of all our production facilities by installing energy saving Phillips T865 light bulbs and nano-tech reflectors. Further, we take away unnecessary light bulbs while adequate light level is still maintained.

We improve our electricity system by the extensive use of frequency inverters.

Heat recovery system is adopted to reuse the heat in high-temperature wastewater produced from manufacturing process. It saves energy for wastewater cooling treatment process and steams.

We adopt green technologies in cooling systems in order to save energy. We reuse used water in manufacturing processes before it is passed to wastewater treatment plant. Furthermore, we work with South China University of Technology for technologies to reuse our treated wastewater.

We adopt natural pest control and handpicking harvesting in our cotton farming. Our farms use 20-30% less pesticides than the national average but we are trying to further reduce the use of pesticides and fertilizers given the frail nature of the soil.

Esquel is a pioneer in Xinjiang in using drip irrigation to conserve water. This reduces water usage by 20%. At the same time, it improves crop yield as it make more cultivable farmland available after eliminating ditches.

Organic cotton - we farm and contract 700 acres (4300mu) on output of 210 tons.

Recycle where we can within our factories – this includes non-production related activities, like recycling containers, office paper, etc.

In 2008 Esquel completed a carbon audit on its fabric mills. From March 2009 onwards, audits on the Group's cotton farming, spinning and apparel making operations will be carried out the following 18 months.